The Manitoba Agricultural Credit Corporation

OVER 40 YEARS

Working Together to Build Your Future

Annual Report 1999 - 2000

MACC
Manitoba Agricultural Credit Corporation

101-00169/

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Minister of Agriculture
and Food

Room 165
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

The Honourable Peter M. Liba, C.M.
Lieutenant-Governor of Manitoba
Room 235 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Your Honour:

I am pleased to submit the Annual Report of the Manitoba Agricultural Credit Corporation for the period of April 1, 1999 to March 31, 2000.

Yours truly,

Rosann Wowchuk

Rosann Wowchuk
Minister of Agriculture and Food

MACC
Manitoba Agricultural Credit Corporation

Unit 100 - 1525 First Street South
Brandon, Manitoba R7A 7A1

T 204.726.6850
F 204.726.6849

The Honourable Rosann Wowchuk
Minister of Agriculture and Food
165 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Mrs. Wowchuk:

On behalf of the Board of Directors, I am pleased to submit the Annual Report of the Manitoba Agricultural Credit Corporation for the fiscal year ending March 31, 2000.

Yours truly,

Bill Uruski
Chairperson

BOARD OF DIRECTORS

Bill Uruski
Chairperson

Sandy Yanick
Vice-Chairperson

Sharon Taylor
Board Member

Joe Eichler
Board Member

Norine Dohan
Board Member

Suszanne Yule
Board Member

Aaron Redekop
Board Member

Terry Wareham
Board Member

Lester Vopni
Legal Counsel/Corporate Secretary

Gill Shaw
Ex-officio Member of the Board

OFFICERS OF THE CORPORATION

Gill Shaw
General Manager

Karen McEachen
Director, Finance and Administration

Albert Todosichuk
Director, Credit Administration

Charlene Kibbins
Director, Corporate and Program Development

Lester Vopni
Legal Counsel/Corporate Secretary

MESSAGE FROM THE CHAIRPERSON AND THE GENERAL MANAGER

As Chairperson and General Manager for the Manitoba Agricultural Credit Corporation, we wish to acknowledge Suszanne Yule, past Chairperson and her Board having acted in the fiscal year ending March 31, 2000.

In the wake of changes in freight rate assistance programs, Manitoba is becoming a preferred location for low cost production of many agricultural commodities. Many Manitoba producers are taking advantage of this window of opportunity to expand and diversify their farm operations.

Diversification initiatives create business and employment opportunities across rural Manitoba. This in turn assists in stabilizing the rural economy and countering the rural depopulation trend.

Expansion and diversification, however, cannot take place without extensive risk capital especially for young and beginning farmers. Manitoba Agricultural Credit Corporation provides high risk financial support through both direct and guaranteed loan programs. Management and staff have been both visionary and proactive in expanding existing programs and developing new ones to meet the needs of the new economy. Rather than compete with other sources of credit, MACC fills gaps in agricultural financing and cooperates, as a guarantor, with credit unions and other financial institutions.

Manitoba Agricultural Credit Corporation's direct lending and guarantee programs continued to increase in both client number and dollar value.

The spin-off benefits of the Diversification Loan Guarantee Program, particularly, are impressive. From the business plans of the 58 Diversification Loan Guarantee projects approved by March 31, 2000, we estimate that 350 new jobs have been created. Every year these jobs will, in turn, generate an additional $1.32 million in provincial tax revenue. Project construction generated local revenue of nearly $60 million and created 435 person years of employment with the attendant $4.3 million in provincial tax revenue. These projects will also result in an annual increase in property taxes of approximately $365,000 and in provincial tax revenue of $620,000.

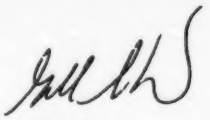
Prompt client service has always been a priority of Manitoba Agricultural Credit Corporation. With the rapid increase in our loan activity and expansion of programs, a major overhaul of our information technology system was essential. With the efforts of our dedicated computer team, the in-house computer system, ECLIPS, continued to evolve and front line staff now have dial-up access to current information on client accounts.

A highlight of the past fiscal year was provision of local area networks to our Teulon and Morris offices. The sharing of information and printers as well as information storage and back up in a central location has increased the technological efficiency in these offices. The networks have also increased the practicality of e-mail, as the use of outside lines was no longer required.

The corporation is also mandated to deliver special financial support programs. In 1999 we delivered a producer recovery program to farmers seriously affected by adverse climatic conditions or sudden drops in commodity prices. This program provided low cost term loans with both interest and repayment deferral clauses to enable farmers to carry out their 1999 production plans. This very successful program was completed in the fiscal year with over $32 million in loans being approved.

The timely delivery of programs and the proactive development of new programs and initiatives could not have been accomplished without the full support of a very dedicated professional staff. The corporation and Manitoba farm communities have benefited greatly from the contributions of these people.

Bill Uruski
Chairperson



Gill Shaw
General Manager

MACC

Manitoba Agricultural Credit Corporation

Our Vision:

A sustainable Manitoba agricultural economy

Our Promise:

To participate in meeting the financial requirements of the agricultural community, thereby contributing to a vibrant Manitoba economy that is globally competitive

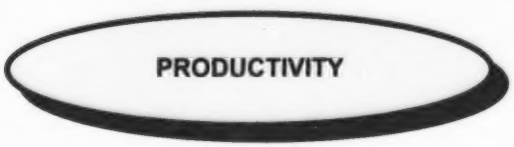
Our Goals:

1. ***To be recognized for quality customer service***
2. ***To provide unique and essential financial assistance programs facilitating value-added and diversification***
3. ***To increase the availability of credit, under reasonable terms and conditions, from traditional financial institutions to Manitoba farmers***
4. ***To always be prepared to give priority to the delivery of emergency and special assistance programs for the Province***

Operating Philosophy

We are committed to building partnerships and relationships within the agricultural community.

We are committed to providing professional, prompt, respectful, orderly, efficient and ethical service.



We are dedicated to providing a high volume of high quality products.

We believe in the future of agriculture as a viable industry in Manitoba and are dedicated to program change and enhancement that addresses unserviced financial needs in the agricultural community.

We are committed to employee development and advancement in an atmosphere of mutual trust that fosters initiative and creativity.

We are committed to defining roles and responsibilities that will support efficient decision making, orderly flow of information, and effective program delivery.

We believe that effective and open communication, based on listening and responding, is integral to a successful organization.

Direct Lending

In the 1999-2000 fiscal year, the corporation continued to maintain a high level of direct lending activity. Historically, the past four years have been the four most demanding years of this decade and in the history of the corporation.

A number of factors contributed to the high level of loan activity. The ongoing downturn in the grains sector increased farmers' need for access to capital on reasonable terms and conditions to maintain their farming operations. At the same time commercial lenders have been consolidating their agricultural lending.

Stocker Loan activity continued to increase. There was a 2% increase in the number of loans and a 21% increase in dollar volume. The average Stocker Loan was $59,500 compared to $50,200 in the previous year.

The increase in Stocker Loan dollar volume is due to the continued strong market for feeder livestock, ongoing interest in diversification and inexpensive feed. Loan limits were enhanced, reflecting this momentum and producers' changing financial requirements. In addition, the program was further enhanced, permitting the use of commercial feedlots. These enhancements provide greater opportunities to Manitoba feeders due to more flexibility.

Emergency and/or Special Assistance Loans

In 1999-2000, MACC continued to cooperate with Manitoba Conservation to deliver the Flood Proofing Loan Assistance Program. The deadline date for application to Manitoba Conservation was September 1, 1999 but applications continue to be received by MACC as work begins on approved projects.

Guaranteed Loans

Manitoba producers continued to initiate value-added and diversification projects. Because the Diversification Loan Guarantee Program funds were nearly exhausted at the end of 1998-99, an extension was introduced extending the program limit to $80 million and resetting the "sunset date" to March 31, 2001.

In 1999-2000, DLG numbers of projects and dollar volume both increased by over 7%. Current projections suggest that the funds will be exhausted before the sunset date and a proposal has been made for the necessary further enhancement and extension.

MACC enhanced the Manitoba Cattle Feeder Associations Loan Guarantee Program by increasing individual limits and permitting Feeder Association members to obtain Guaranteed Operating Loans for purposes other than the purchase of feeders.

Five Point Plan

In December of 1998, MACC responded to the farm income crisis with the development of a Five Point Plan.

1. Six hundred and forty-eight farmers benefited from implementation of the Manitoba Producer Recovery Program. In 1999-2000, 367 farmers took advantage of the program before the application deadline of July 31, 1999 representing an increase of 30.6% over the previous year.

2. Under the revised Comprehensive Refinancing Loan Program clients could refinance existing MACC debt with an interest rate of 6.50% for the first five years of the loan. Thirty-five farmers used the Comprehensive Refinancing Loan Program in 1999-2000 compared to three in the previous year.

3. Under the Deferred Loan Payments option for Direct Loans, clients could apply to have an MACC loan payment deferred for a one-year period with an option for extension if required. By the end of 1999-2000 year, 248 clients had exercised this option.

4. Debt Consolidation Loans in the area of Direct Lending were continued. In the Southwest Region, where farmers coped with severe flooding of farmland as well as depressed prices for grains and oil seeds, use of the debt consolidation option was especially well received.

5. MACC continued to offer Guaranteed Operating Loans for new lines of credit available from private lending institutions for operating expenses. The average loan size in 1999-2000 was 7.7% higher than in the previous year. This would be indicative of the changes to the cropping mix and increases in operating and debt servicing costs faced by farmers.

Property Management

MACC acquires title to property through debt settlement proceedings. Every step is taken to maintain the farming operation. MACC makes every attempt to minimize the extent of land owned, ensure that all land being held is in use and that previous debtors, other agricultural producers or the general public have an opportunity to lease or purchase the farmland owned by MACC.

In 1999-2000, MACC had decreased the extent of its land holdings by 6,532 acres and almost 80% of MACC's land portfolio was leased during the year.

LOOKING AHEAD WITH CONFIDENCE

MACC believes the future of agriculture in Manitoba is promising. Further MACC is committed to program change and enhancement addressing unserviced financial needs of the agricultural community.

MACC will continue to maintain its position as a stable provider and facilitator of low cost agricultural credit contributing to the preservation of viable farm family units and to the growth of a vibrant Manitoba economy that is globally competitive.

In order to maintain relevancy in present day agriculture, MACC must continue to be an innovative and proactive organization, constantly developing and delivering new and enhanced programming.

MACC is committed to building partnerships within the agricultural community. MACC strives to provide vehicles to assist producers in overcoming challenges and in capitalizing on opportunities present in a market driven economy. This can only be achieved by interdependent action.

MACC's direct lending programs will continue to be developed with special emphasis on young, beginning farmers, and are intended to be effective building blocks for the establishment, diversification or expansion of their farm operations.

The corporation will continue to consult with clients and stakeholders to ensure its services are essential, fill unserviced gaps and do not duplicate other services. Program research and development aimed at innovative financing options for poultry, potato, sheep, hogs, beef and alternative livestock operations, research into transportation and processing and consideration of programming to facilitate intergenerational farm transfers will all be studied. Analysis of trends in agriculture and review of program criteria and parameters are ongoing commitments.

Increasing the availability of credit, under reasonable terms and conditions, from traditional financial institutions to Manitoba farmers, through guarantee programs, is a another goal of MACC. Through implementation of the Enhanced DLG Program, renewal of the GOL Program, and maintenance and ongoing review of all partnership programs that reflect emerging needs, the corporation will improve producers' opportunities to access capital while supporting the involvement of local lenders in the agricultural industry.

MACC's commitment to quality customer service includes enhanced efficiency, accuracy and turnaround time in responding to client requests, and continued efforts to enhance public awareness of MACC's products and services.

Agricultural initiatives in Manitoba require stable and progressively extensive financing. The challenge for MACC will be meeting the needs for the maintenance of the farm family and the rural community while supporting the development of alternative business structures necessary for the growth of agricultural initiatives in the world market.

Beginning in 1959-60, its first full year of operation, the corporation borrowed its capital requirements from the Province of Manitoba. The capital funds at that time remained with the corporation to be reused for lending purposes and the interest charged on this debt was paid annually to the Province.

In 1977, arrangements were made to repay these capital funds and the fixed interest charges over an amortization period as consistent as possible with the term over which these funds were loaned to farmers. Subsequent capital advance requirements and terms of repayment were determined annually based on the lending activity of the corporation for that year.

Because of the "open" nature of its loans to farmers, the corporation is also allowed to make prepayments on the capital advances to the extent of the prepayments received from its clients.

Financial Statements

Balance Sheet

Deficit Account

1985-86 brought about a change in the method of funding provided by the Province for the corporation's operations. This change eliminated any further funding of MACC's allowance for impaired loans and required a return to the Province of funds provided for this allowance prior to March 31, 1985.

Because of this funding change, the corporation continues to operate from an accumulated deficit position which is now $23,035,199. This is essentially the allowance for impaired loans total of $19,991,099 at March 31, 2000, less the reserve for working capital and other provisions in the amount of $3,044,100.

Statement of Revenue and Expenditure

The net costs of operation of the corporation were $8,851,858 (expenditures of $30,559,919 less revenue of $21,708,061) in 1999-2000 as compared with $7,358,354 (expenditures of $26,610,820 less revenue of $19,252,466) in the previous fiscal year.

To offset these net costs of operation, the Province provided $3,579,479 ($3,380,203 from appropriations of Manitoba Agriculture and Food and $199,276 from Manitoba Finance valuation account) resulting in an operating excess of expenditures over revenue of $5,272,379 for 1999-2000.

LOAN PORTFOLIO

As at March 31, 2000, MACC's loan portfolio consisted of 6,866 client loans totalling $287,726,895 as compared to 6,345 client loans totalling $235,377,213 at March 31, 1999.

Young Farmer Rebate

The Young Farmer Rebate was introduced in 1978-79 to assist young, beginning and expanding farmers in the development, re-organization and expansion of their farm operations. The rebate is aimed at reducing the cost of borrowing during the critical start-up stage of production.

The current Young Farmer Rebate was implemented during 1993-94. Eligible young farmers, under the age of 40, receive a rebate of 2% on the first $100,000 of principal on Direct Loans or Cooperative, Corporate and Partnership Loans, with an interest term of five years or greater - to a maximum lifetime rebate of $10,000.

During 1999-2000, there were young farmer rebates of $1,322,094 as compared to rebates of $1,407,611 during 1998-99. The majority of Young Farmer Rebates are applied to Direct Loans. Of the 1999-2000 direct lending activity to individuals, young farmers were approved for 69% of the loan dollar volume as compared to 70% in 1998-99.

DIRECT LENDING PROGRAM

MACC's direct lending program provides eligible Manitoba farmers with financing for fixed-terms up to thirty years. These loans provide clients with competitive interest rates, annual compounding of interest and no prepayment penalties. Clients also have the control and flexibility of "locking in" for the full amortization period of the loan or selecting a five-year renewable interest term.

Direct Lending Program Activity

	March 31, 2000		March 31, 1999	
	Number	**Amount**	**Number**	**Amount**
Direct Loans	650	$ 47,440,639	717	$ 54,622,744
Cooperative, Corporate & Partnership Loans	17	3,141,968	24	4,283,031
Stocker Loans	405	24,098,137	397	19,916,712
Total Lending Activity	**1072**	**$ 74,680,744**	**1138**	**$ 78,822,487**

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Direct Loans

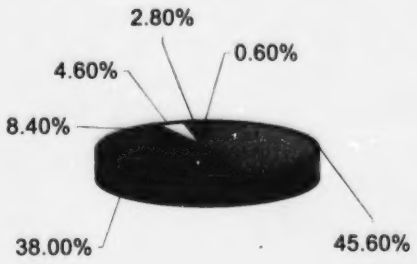
The current delivery model of Direct Loans was introduced in 1978-79 to provide financial assistance to Manitoba farmers in establishing, developing and operating their farms.

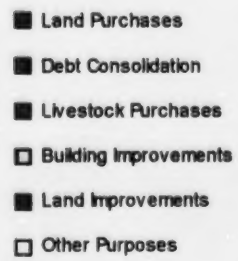
During 1999-2000, there were 650 loans approved totalling $47,440,639 as compared to 717 loans approved totalling $54,622,744 during 1998-99.

Agricultural lending activities in 1999-2000 were distributed as indicated below with the major allocations of activity to land purchase loans of 45.6% and debt consolidation loans of 38%.

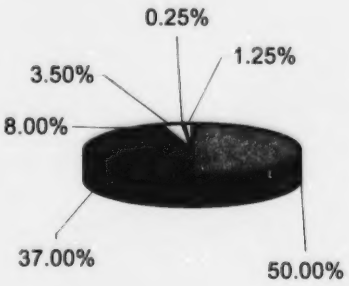
Approved Direct Loans by Purpose

1999-2000





1998-1999



Cooperative, Corporate and Partnership Loans

The Cooperative, Corporate and Partnership Loans were introduced in 1978-79 to provide multiple farm operators with intermediate and/or long term loans.

During 1999-2000, there were 17 loans approved totalling $3,141,968 as compared to 24 loans approved totalling $4,283,031 in 1998-99.

Stocker Loans

Stocker Loans were introduced in 1975-76 to provide cattle inventory financing to qualified livestock producers.

During 1999-2000, there were 405 loan approvals for 38,781 head, totalling $24,098,137 as compared to 397 loan approvals for 36,440 head, totalling $19,916,712 for 1998-99.

From time to time there exists a group of agricultural producers and other Manitobans that require special financial assistance that the Manitoba Government deems necessary to provide.

When called upon, MACC plays a vital role in this area acting as the vehicle for the delivery of these special programs.

Emergency and/or Special Assistance Program Activity

	March 31, 2000		March 31, 1999	
	Number	Amount	Number	Amount
Flood Proofing Assistance Loans	104	$ 8,499,600	229	$ 12,742,846
Manitoba Producer Recovery Loans	367	18,306,112	281	14,453,810
Comprehensive Refinancing Loans	35	2,571,608	3	550,000
Total Lending Activity	**506**	**$ 29,377,320**	**513**	**$ 27,746,656**

Flood Proofing Loan Assistance Program

In cooperation with Manitoba Conservation, the Flood Proofing Loan Assistance Program was introduced in 1997-98 to deliver financial assistance to Manitobans who were affected by the 1997 Red River Valley flood to undertake raising, moving and diking of buildings necessary for flood proofing.

During 1999-2000, there were 104 loans approved totalling $8,499,600 as compared to 229 loans approved totalling $12,742,846 in 1998-99. The deadline for applications under this program was September 1, 1999.

Manitoba Producer Recovery Program

The Manitoba Producer Recovery Program was introduced in 1998-99 as a loan initiative. This program assisted producers to offset working capital deficits and to settle accounts payable where a severe decline in farm income has jeopardized the viability of their farming operation.

Individual farmers were eligible for loans of up to $50,000 while partnerships, corporations and farming cooperatives could borrow up to $100,000. Loans must be repaid within 10 years.

During 1999-2000, there were 367 loans approved totaling $18,306,112 as compared to 281 loans approved totaling $14,453,810 in 1998-99.

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During 1999-2000, there were 367 loans approved totaling $18,306,112 as compared to 281 loans approved totaling $14,453,810 in 1998-99.

Comprehensive Refinancing Loan Program

The Comprehensive Refinancing Loan Program was introduced in 1985-86 to provide loans to farmers or corporate farms that were in financial difficulty. The program was enhanced in 1998-99 when $5 million was made available specifically for lending to existing MACC clients in financial difficulty. The interest rate was set at 6.50% for the first five years of each loan.

During 1999-2000, there were 35 approvals totalling $2,571,608 as compared to 3 approval for $550,000 in 1998-99.

Manitoba Farm Mediation Board Guarantees

During 1987-88, loan assistance to clients of the Manitoba Farm Mediation Board was identified to be in the category of "special programs".

In 1999-2000, there were Manitoba Farm Mediation Board Guarantees associated with 9 Direct Loan approvals totalling $842,900, 4 Producer Recovery Loan approvals totalling $177,000 and 19 Comprehensive Refinancing Program Loans totalling $1,531,040 for a total of 32 loans totalling $2,550,940 as compared to 2 loans totalling $320,000 during 1998-99.

The Manitoba Agricultural Credit Corporation is committed to meeting the financing requirements of Manitoba's agricultural producers by working in partnership with the major Chartered Banks, Credit Unions, and Caisse Populaires. These partnerships enable agricultural producers, with reasonable business plans and debt servicing capabilities, to access credit where it would not otherwise be available due to factors such as insufficient equity or security and unproven projects. MACC's guarantees encourage private lenders to participate in areas that they may otherwise consider too high risk.

Guarantee Program Activity

	March 31, 2000		March 31, 1999	
	Number	**Amount**	**Number**	**Amount**
Guaranteed Operating Loans	193	$ 22,343,500	204	$ 21,933,964
Feeder Association Loan Guarantees	10	22,401,044	10	17,098,082
Diversification Loan Guarantees	19	18,232,928	18	17,040,826
Total Guaranteed Activity	**222**	**$ 62,977,472**	**232**	**$ 56,072,872**

Guaranteed Operating Loan Program

This program was introduced in 1983-84 to provide new lines of credit for operating expenses. The corporation guarantees each participating lending institution 12 ½% of the respective total value of loans made under this program, with a maximum of $100 million combined total to all participating lending institutions.

During 1999-2000, there were 193 loan guarantees totalling $22,343,500 approved as compared to 204 loan guarantees approved totalling $21,933,964 during 1998-99.

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During 1999-2000, there were 193 loan guarantees totalling $22,343,500 approved as compared to 204 loan guarantees approved totalling $21,933,964 during 1998-99.

Manitoba Cattle Feeder Associations Loan Guarantee Program

This program was introduced in 1991-92 to assist Manitoba residents in establishing Feeder Associations and enable them to borrow funds on the strength of a government guarantee to the lender. For each association the corporation provides a guarantee to the individual lending institutions, based on 25% of the amount of the loan, to a maximum guarantee of $1,250,000 per association.

At the end of 1999-2000, there were 10 Feeder Associations with a total of $22,401,044 in approved guaranteed loans (for 179 active members) as compared to 10 Feeder Associations with a total of $17,098,082 in approved guaranteed loans (for 158 active members) at the end of 1998-99.

Diversification Loan Guarantee Program

The Diversification Loan Guarantee Program was introduced during 1995-96 to assist Manitoba producers in diversifying their current operation and/or add value to commodities produced on the farm. The corporation will guarantee 25% of loans up to $3 million from private lending institutions.

During 1999-2000, there were 19 Diversification Loan Guarantees approved for a total of $18,232,928 as compared to 18 Diversification Loan Guarantees approved for a total of $17,040,826 during 1998-99.

At the end of 1999-2000, there were 58 Diversification Loan Guarantees totalling $53,323,054 as compared to 39 Diversification Loan Guarantees totalling $35,090,126 at the end of 1998-99.

The corporation acquires title to property as a result of debt settlement negotiations or by foreclosure proceedings. MACC's policy is to return property to the farmers by either selling or leasing. Whenever possible, MACC leases the property to the original land owner.

Property Activity		
	March 31, 2000	**March 31, 1999**
	Acres	**Acres**
Property held at beginning of year	**28,559**	37,843
Sales	**6,835**	10,560
Acquisitions	**303**	1,276
Property Held at End of Year	**22,027**	**28,559**

Lease Programs

Short Term Leases

Properties with expired leases are offered for sale by public tender. Properties that are not sold are tendered for lease with terms up to five years.

As at March 31, 2000 there were 27 Short Term Leases consisting of 7,488 acres and 1,504 acres committed to new tenants with lease agreements starting April 1, 2000.

Land Lease Option Program

From 1974 to 1977, MACC purchased farmland from willing sellers and leased it to qualifying farmers. The corporation acquired a total of 223,600 acres for $22.6 million.

As at March 31, 2000, there were 26 Long Term Leases and Agreements for Sale on 10,230 acres

The corporation acquires title to property as a result of debt settlement negotiations or by foreclosure proceedings. MACC's policy is to return property to the farmers by either selling or leasing. Whenever possible, MACC leases the property to the original land owner.

Property Activity		
	March 31, 2000	**March 31, 1999**
	Acres	**Acres**
Property held at beginning of year	28,559	37,843
Sales	6,835	10,560
Acquisitions	303	1,276
Property Held at End of Year	**22,027**	**28,559**

Lease Programs

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MACC
Manitoba Agricultural Credit Corporation

Unit 100 - 1525 First Street, Brandon, Manitoba, R7A 7A1
Telephone (204) 726-6850 Fax (204) 726-6849

May 26, 2000

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in accordance with accounting policies disclosed in Note 2. In management's opinion, the financial statements have been properly prepared and of necessity include some amounts based upon management's best estimates and judgments. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

As management is responsible for the integrity of the financial statements, management has established systems of internal control to provide assurance that reliable financial information is produced and assets are properly accounted for and safeguarded from loss. The Board of Directors, which oversees management's responsibilities for financial reporting, reviews and approves the financial statements. The Board of Directors meets with management and the auditors to discuss the audit, financial reporting, and related matters.

G. Shaw
General Manager

K. McEachen
Director, Finance & Administration

Office of the Provincial Auditor

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITORS' REPORT

To The Legislative Assembly of Manitoba, and
To the Board of Directors of the Manitoba Agricultural Credit Corporation

We have audited the balance sheet of The Manitoba Agricultural Credit Corporation as at March 31, 2000, the statement of revenue and expenditure and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

James M. Martin, CA
for the Provincial Auditor

Winnipeg, Manitoba
May 26, 2000

The Manitoba Agricultural Credit Corporation

Balance Sheet

As at March 31, 2000

	2000 $ (000s)	1999 $ (000s) (Restated)
Assets		
Cash (Note 3)	$ 11,750	$ 13,448
Receivables (Notes 2 and 6)		
Mortgages (Note 4)	263,252	213,963
Other (Note 5)	16,967	15,637
Long-term funding commitments - Province of Manitoba (Note 7)	4,591	4,326
Real estate (Notes 2 and 12)	3,432	4,710
	$ 299,992	$ 252,084
Liabilities and Deficit		
Accounts payable		
Province of Manitoba	$ 72	$ 73
Unearned real estate revenue	124	150
Other	867	934
Provision for Young Farmer Rebate	1,144	1,093
Provision for losses on guaranteed loans (Notes 2 and 11)	5,751	4,635
Provision for employee pension benefits (Notes 2 and 9)	4,362	4,072
Advances from Province of Manitoba (Note 8)	310,707	258,890
	323,027	269,847
Deficit		
Balance, beginning of year	(17,763)	(13,504)
Excess of expenditure over revenue	(5,272)	(4,259)
Balance, end of year (Note 18)	(23,035)	(17,763)
	$ 299,992	$ 252,084

Contingent Liabilities (Note 11)

Change in Accounting Policy (Note 13)

APPROVED BY THE BOARD

DIRECTOR

Bill Uruski, Chairman

DIRECTOR

Sandy Vanick, Vice-Chair

The Manitoba Agricultural Credit Corporation

Statement of Revenue and Expenditure

for the year ended March 31, 2000

	2000 $ (000s)	1999 $ (000s) (Restated)
Revenue		
Interest		
Mortgages	$ 19,098	$ 15,633
Other	1,198	1,084
Cash on deposit with Province of Manitoba	494	786
	20,790	17,503
Province of Manitoba – Net Funding (Note 17)	3,870	3,214
Services donated by Province of Manitoba (Note 2)	94	119
Real estate (Note 10)	831	842
Change in provision for decline in real estate values (Note 12)	(50)	66
Other	43	723
	25,578	22,467
Expenditure		
Administration costs		
Salaries (Note 2)	3,265	2,603
Impaired loan losses (Notes 2 and 6)	4,148	3,139
Change in provision for losses on guaranteed loans	1,214	765
Assistance under the Manitoba Farm Mediation Board program	53	36
Young Farmer Rebate	1,322	1,408
Flood proofing initiative		
Administration	214	403
Provision	158	555
Other administration costs	1,444	1,378
	11,818	10,287
Financing charges		
Interest on advances from Province of Manitoba	19,032	16,439
	30,850	26,726
Excess of expenditure over revenue	$ 5,272	$ 4,259

The Manitoba Agricultural Credit Corporation

Balance Sheet

As at March 31, 2000

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Change in provision for losses on guaranteed loans	**1,214**	765
Assistance under the Manitoba Farm		
Mediation Board program	**53**	36
Young Farmer Rebate	**1,322**	1,408
Flood proofing initiative		
Administration	**214**	403
Provision	**158**	555
Other administration costs	**1,444**	1,378
	11,818	10,287
Financing charges		
Interest on advances from Province of Manitoba	**19,032**	16,439
	30,850	26,726
Excess of expenditure over revenue	$ **5,272**	$ 4,259

The Manitoba Agricultural Credit Corporation

Statement of Cash Flows

for the year ended March 31, 2000

	2000 $ (000s)	1999 $ (000s) (Restated)
Cash Provided By (Used for)		
Operating activities		
Excess of expenditure over revenue	$ **(5,272)**	$ (4,259)
Items not involving cash		
Change in provision for impaired loan losses	**3,948**	3,046
Change in provision for flood proofing loan losses	**158**	555
Gain on disposal of real estate	**(594)**	(461)
Change in provision for decline in real estate value	**50**	(66)
Change in provision for Young Farmer Rebate	**51**	40
Change in provision for losses on guaranteed loans	**1,116**	724
Change in provision for employee pension benefits	**290**	115
Mortgage loans disbursed	**(93,188)**	(73,224)
Mortgage principal received	**42,400**	36,841
	(45,769)	(32,430)
Increase in other receivables	**(1,941)**	(5,963)
Increase in mortgage receivables	**(2,262)**	(829)
Decrease in accounts payable	**(94)**	(1,090)
	(4,297)	(7,882)
Cash used for operating activities	**(55,338)**	(44,571)
Investing activities		
Proceeds from real estate disposals	**2,051**	2,503
Real estate acquisitions	**(229)**	(400)
Cash provided by investing activities	**1,822**	2,103
Financing activities		
Advances received from Province of Manitoba	**108,845**	100,200
Advances repaid to Province of Manitoba	**(57,027)**	(54,364)
Cash provided by financing activities	**51,818**	45,836
Net increase (decrease) in cash	**(1,698)**	3,368
Cash, beginning of year	**13,448**	10,080
Cash, end of year	$ **11,750**	$ 13,448

The Manitoba Agricultural Credit Corporation

Statement of Cash Flows

for the year ended March 31, 2000

	2000 $ (000s)	1999 $ (000s) (Restated)
Cash Provided By (Used for)		
Operating activities		
Excess of expenditure over revenue	$ (5,272)	$ (4,259)
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Mortgage principal received	42,400	36,841
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Increase in other receivables	(1,941)	(5,963)
Increase in mortgage receivables	(2,262)	(829)
Decrease in accounts payable	(94)	(1,090)
	(4,297)	(7,882)
Cash used for operating activities	(55,338)	(44,571)
Investing activities		
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Advances repaid to Province of Manitoba	(57,027)	(54,364)
Cash provided by financing activities	51,818	45,836
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Cash, beginning of year	13,448	10,080
Cash, end of year	$ 11,750	$ 13,448

1. Nature of Operations

The Manitoba Agricultural Credit Corporation was incorporated under The Agricultural Credit Corporation Act of Manitoba. Under this Act, the corporation provides and administers financial assistance to farmers to assist in the development of farms in Manitoba.

2. Significant Accounting Policies

a) Basis of Accounting

The corporation follows generally accepted accounting principles.

b) Allowances for Impaired Loans

The allowances for impaired loans are determined annually by a review of individual accounts. The allowances represent management's best estimate of probable losses on receivables. Where circumstances indicate doubt as to the ultimate collectibility of principal or interest, specific allowances are established for individual accounts. These accounts are valued at the lower of their recorded value and the estimated net realizable value of the security held for the accounts.

In addition to the allowances for impaired loans identified on an individual loan basis, the corporation establishes a further allowance for impaired loans. This additional allowance for loan impairment represents management's best estimate of probable losses in its entire loan portfolio, due to potential future declines in the value of the real estate taken as the underlying security for these loans.

Current year provisions for impaired loans are charged to administration expenditure as impaired loan losses. Actual accounts written off by Board resolution are charged to the allowances for impaired loans.

c) Provision for losses on guaranteed loans

The provisions for losses on guaranteed loans are determined annually by a review of individual guarantees. The provisions represent management's best estimate of probable claims against the guarantees. Where circumstances indicate the likelihood of claims arising, provisions are established for those loan guarantees. These provisions would cover principal, accrued and unpaid interest, and amounts recoverable.

Current year provisions for losses on guaranteed loans are charged to administration expenditure. Actual claims paid are charged to the provisions for losses on guaranteed loans. Recoveries are credited against current year's expenditure.

2. Significant Accounting Policies (continued)

d) Real Estate Acquired in Settlement of Loans

Real estate that is acquired in settlement of loans through foreclosures and voluntary transfers of title is recorded at the lower of the recorded value of the loan and the appraised value of the real estate at acquisition date. Subsequent declines or increases in estimated realizable value are not recorded. Real estate is stated net of a provision for decline in real estate value.

e) Real Estate Under Long-Term Lease

Real estate that was acquired under the land lease program for long-term leases is recorded at cost.

f) Pension Plan

Employees of the Corporation are pensionable under the Civil Service Superannuation Act. The Corporation accrues a provision for the liability for the employer's share of employee pension benefits, including future cost of living adjustments, based on an actuarial valuation.

g) Donated Services

The Province of Manitoba provides certain administrative services at no charge to the corporation. The estimated fair value of $94,155 for these services is included in salaries expenditure and donated services revenue in these financial statements.

h) Measurement Uncertainty – Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash

	2000 (000s)	1999 (000s)
Cash on hand and in bank	$ 976	$ 1,575
Cash on deposit with Province of Manitoba	10,774	11,873
	$ 11,750	$ 13,448

4. Mortgages Receivable

			2000 (000s)		1999 (000s)
Amounts are due over the following terms:					
1 year	- Accrued interest	$	**11,691**	$	9,227
	- Arrears		**2,304**		2,794
	- Prepayments		**(10,029)**		(9,817)
	- Regular instalments		**20,319**		16,512
			24,285		18,716
2 years	- Regular instalments		**21,288**		17,015
3 years	- Regular instalments		**21,825**		17,695
4 years	- Regular instalments		**22,129**		17,837
5 years	- Regular instalments		**22,363**		17,653
Over 5 years	- Regular instalments		**167,699**		137,624
			279,589		226,540
Less: Allowance for impaired loans			**16,337**		12,577
		$	**263,252**	$	213,963

5. Other Receivables

	2000 (000s)	1999 (000s)
Stocker program advances	$ 16,335	$ 14,231
Flood proofing initiative	3,998	4,307
Promissory notes	0	14
Lease revenue	166	170
Sale of real estate	4	82
Miscellaneous	6	29
	20,509	18,833
Less: Allowance for impaired loans	3,542	3,196
	$ 16,967	$ 15,637

6. Allowances for Impaired Loans

	2000 (000s)	Provision	Write Offs	1999 (000s)
Mortgages	$ 16,337	$ 3,912	$ 152	$ 12,577
Stocker program advances	2,293	193	35	2,135
Promissory notes	0	(2)	12	14
Other	106	45	0	61
	2,399	236	47	2,210
	$ 18,736	$ 4,148	$ 199	$ 14,787

7. Long-term funding commitments – Province of Manitoba

	2000 (000s)	1999 (000s)
Employee Severance	$ 229	$ 254
Employee Pension Benefits	4,362	4,072
	$ 4,591	$ 4,326

8. Advances from Province of Manitoba

In accordance with Province of Manitoba practices, the corporation may elect to repay advances or portions of advances prior to maturity.

	2000 (000s)	1999 (000s)
Advances are repayable in equal annual blended instalments of principal and interest, with interest rates from 4.950% to 8.000%. Maturities of principal by fiscal year are as follows:		
2000	$ --	$ 39,328
2001	51,743	18,565
2002	23,051	19,273
2003	23,891	19,904
2004	24,320	19,471
2005	22,917	22,925
2006 through 2025	164,785	119,424
	$ 310,707	$ 258,890

9. Provision for employee pension benefits

Corporation employees are eligible for defined benefit pensions under The Manitoba Civil Service Superannuation Act. In accordance with the provisions of this Act, the corporation contributes 50% of the pension disbursements made to retired employees.

Actuarial valuations are to be carried out every three years to provide an estimate of the accrued liability for unfunded pension benefits. The most recent actuarial valuation was performed as at December 31, 1998. Based on the 1998 valuation for "Future Indexing", the actuarial liability for unfunded pension benefits is estimated to be $4,361,934 at March 31, 2000 (1999 - $4,071,821). Previously, the corporation had reported the accrued pension liability as calculated on a "No Future Indexing" basis. The change was made to conform to reporting used by the Province of Manitoba.

10. Real estate revenue

	Proceeds (000s)	Book Value	2000 (000s)	1999 (000s)
Sales to lessees	$ 1,357	$ 850	$ 507	$ 299
Sales by public tender	694	607	87	162
	$ 2,051	$ 1,457		
Net gain on sale of real estate			594	461
Lease revenue from real estate acquired in settlement of loans and from long-term leases			289	405
Other revenue			2	2
Interest revenue			21	23
			906	891
Less: Real estate carrying costs			75	49
			$ 831	$ 842

11. Contingent Liabilities

a) The corporation introduced the Guaranteed Operating Loan Program beginning April 1, 1983. The corporation guarantees each participating lending institution 12 1/2% of the respective total value of loans made under this program. As of March 31, 2000, the corporation's contingent liability amounted to $9,432,656 (1999 - $8,533,034). Based on management's best estimate of probable losses, the corporation has made a provision for this contingency in the amount of $2,351,586 (1999 - $2,250,682). The corporation adjusts the provision to the level regarded by management as appropriate through a current provision charged or credited to administration expenditure for the year.

b) The Manitoba Cattle Feeder Associations Loan Guarantee Program was introduced jointly by Manitoba Agriculture and Food and The Manitoba Agricultural Credit Corporation in November 1991. In September 1997, The Manitoba Agricultural Credit Corporation assumed responsibility for administration of the program. For each association, the corporation provides a guarantee to the lending institutions, based on 25% of the amount of the loan to a maximum guarantee of $1,250,000. As of March 31, 2000 the corporation's contingent liability amounted to $5,600,261 (1999 - $4,274,521). Based on management's best estimate of probable losses, a provision has been made for this contingency in the amount of $1,400,065 (1999 - $1,068,630).

11. Contingent Liabilities (continued)

c) The Diversification Loan Guarantee Program was introduced in December 1995, to provide guarantees on loans made by participating lenders, for diversification or farm value-added activities. On qualifying individual loans up to a maximum of $3,000,000, the corporation will guarantee 25%, up to $750,000 per loan. As at March 31, 2000, the corporation's contingent liability under this program amounted to $13,330,764 (1999 - $8,772,532). Based on management's best estimate of probable losses on this program, the corporation has established a provision in the amount of $1,999,615 (1999 - $1,315,880).

d) The corporation has guaranteed performance bonds of certain agricultural marketing agencies in the amount of $413,794 (1999 - $484,823). No provision for this contingency has been made in the financial statements. Any payments arising from claims under these guarantees will be recorded as an expense in the period the claims occur.

e) The corporation fully guarantees certain loans to individuals for the purpose of farming. The corporation made its last guarantee of this nature during the 1983 fiscal year. As at March 31, 2000, these guaranteed loans were paid in full (1999 - $3,235).

f) As at March 31, 2000 the corporation had approved but not disbursed mortgages and other loans in the amount of $19,649,343 (1999 - $19,853,781).

12. Real estate

Based on a review of its current real estate portfolio, the corporation has established a provision of $112,565 for 2000 (1999 - $62,280) to provide for future declines in real estate values. This provision represents management's best estimate of probable losses on sale of real estate.

	2000 (000s)	1999 (000s)
Real Estate	$ 3,544	$ 4,772
Provision for decline in real estate values	112	62
	$ 3,432	$ 4,710

13. Change in Accounting Policy

During the year, the Corporation changed its accounting policy regarding the recognition of its liability for pension obligations. Commencing in 1999/2000, a provision has been recorded for the Corporation's share of employees' current and past service pension benefits. This change in accounting policy has been applied on a retroactive basis.

Accordingly, long-term liabilities and future funding commitments have been restated as at April 1, 1998 by $3,957,074 to reflect the effects of the change in accounting policy. This change in accounting policy does not effect the excess of expenditure over revenue.

14. Interest Paid and Received

During the year, the corporation received interest of $18,323,787 (1999 - $16,364,003) and paid interest of $19,032,232 (1999 - $16,438,546).

15. Related Party Transactions

The corporation is related in terms of common ownership to all Province of Manitoba created departments, agencies and Crown corporations. The corporation enters into transactions with these entities in the normal course of business.

16. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, supplies or other third parties, have been fully resolved.

17. Revenue – Province of Manitoba

	2000 (000s)	1999 (000s)
Grant	$ 3,580	$ 3,099
Increase in long-term funding commitment	290	115
	$ 3,870	$ 3,214

18. Comparative Figures

Certain 1999 figures have been reclassified to conform to the 2000 financial statement presentation.

19. Economic Dependence

The corporation is economically dependent on the Province of Manitoba.